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SUBJECT: April Economic Digest: Mozambique

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¶1. This is a brief summary of significant economic developments in Mozambique during April 2007. We provide it as a supplement to our other reporting. The items discussed are:

- China's Trade with Mozambique Grows 26 percent
- France Grants Debt Relief, Supports Limpopo Park
- Moma Mineral Reserves Increase, Mining Begins
- Cotton Production Up Significantly in 2005/2006
- First Quarter Inflation was 1.5 Percent
- European Commission to Finance Mozambican Sugar

China's Trade with Mozambique Grows 26 Percent

¶2. The head of Mozambique's export promotion institute IPEX, Joao Macaringue, told reporters on April 20 that trade between China and Mozambique reached USD 208 million in 2006. This marked a 26 percent increase over the volume of trade in 2005, he said. Macaringue did not provide export figures for each country, except to say that Mozambique's exports to China were greater than China's exports to Mozambique. He said that the vast majority of goods flowing from Mozambique to China were unprocessed natural resources (Embassy note: presumably logs and seafood). He added that his government hoped exports in the future would include more processed goods, and that Chinese investment would arrive to increase local processing of natural resources. (Embassy comment: Post believes that a significant amount of exports of Mozambican logs and seafood is not captured in official statistics.)

France Grants Debt Relief, Supports Limpopo Park

13. On April 2 Mozambican Finance Minister Manuel Chang and French Ambassador to Mozambique Thierry Viteau signed an addendum to France's official bilateral debt relief contract with Mozambique, extending debt relief for an additional two years. The extension makes an additional 8.8 million euros available for various assistance projects in the country, including health programs in the northern province of Cabo Delgado, support for national HIV/AIDS programs and support to the national budget.

14. Both nations signed another agreement on April 23, under which the French development agency, AFD, will give 17 million euros in development funding to Mozambique. Eleven million will go to support development of the Limpopo National Park (PNL) in the southern province of Gaza. The PNL is part of the Greater Limpopo Transfrontier Park, which also includes South Africa's Kruger National Park and Zimbabwe's Gonarezou Park. Other donors also supporting the PNL include the German Development Bank, the World Bank and the South African Peace Parks Foundation. The remaining six million euros in French funding will go to the 2007-2009 Mozambican state budget. France is one of eighteen donor countries and organizations that provide the Mozambican government with funds for its national budget.

Moma Mineral Reserves Increase, Mining Begins

15. On April 26 Kenmare Resources announced a 60

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percent increase in titanium reserves at its Moma heavy minerals concession in Nampula province. The new estimate, the result of recent excavations in the Nataka area of the concession, increases the mine's estimated reserves from 101 million to 163 million tons. Mining has begun on an experimental basis, with one dredger removing mineral-bearing sands. The ore is then processed through a Wet Concentrator Plant to produce a heavy mineral concentrate, which will be separated at a separation plant (not yet in operation) into ilmenite (iron titanium silicate), rutile (titanium dioxide) and zircon (zirconium silicate). Kenmare currently projects that it will produce 800,000 tons of ilmenite, 21,000 tons of rutile and 1.2 million tons of zircon annually, and that by the end of 2007 the Moma mine will account for 6.5 percent of the world's titanium production.

Cotton Production Up Significantly in 2005/2006

16. The 2005/2006 cotton harvest was 122,282 tons of raw cotton, the biggest since 1972/1973. The harvest represents a massive increase over the 2004/2005 production year, when only 78,683 tons were picked. The Mozambique Cotton Institute (IAM) believes the significant growth is the result of both increased numbers of peasant families involved in cotton production and improved productivity. The 2006/2007 production year is expected to yield approximately 121,000 tons of raw cotton. The slight decrease is predicted as the result of late rains in some cotton regions and some unwillingness by farmers stuck with cotton from the previous

season to plant a new crop.

First Quarter Inflation was 1.5 Percent

¶7. According to the Mozambican Central Bank, inflation for the first quarter of the year was 1.5 percent. Inflation in Mozambique is measured by the Maputo Consumer Price Index. Large price increases were noted in a few main food products, namely tomatoes (up 27.4 percent), cabbage (up 17.2 percent), onions (up 8.46 percent) and fresh fish (up 96.81 percent).

European Commission to Finance Mozambican Sugar

¶8. The European Commission (EC) will provide six million USD to the Ministry of Agriculture to support the second phase of the sugar sector development. The funding will promote participation by small and medium-sized Mozambican farmers in sugar cane production and improve the quality of social services in sugar production areas. The funding is part of the ECQs technical and financial assistance program intended to assist ACP (African, Caribbean and Pacific) countries affected by the European UnionQs reformed sugar rules. ACP countries no longer will receive a preferential price; however, they also no longer face quota restrictions. Recent and planned investment in MozambiqueQs sugar industry by the private sector hopes to capitalize on the chance to export much more sugar. The Mozambican government and the private sector hope to double sugar production by 2009 to over 500,000 tons per year.

Dudley